



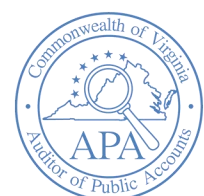
NEW COLLEGE INSTITUTE

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2011 THROUGH JUNE 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
(804) 225-3350



## AUDIT SUMMARY

Our audit of New College Institute for the period July 1, 2011, through June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

## –TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1
AGENCY HIGHLIGHTS	2
FINANCIAL HIGHLIGHTS	3-4
INDEPENDENT AUDITOR’S REPORT	5-6
AGENCY RESPONSE	7-8
AGENCY OFFICIALS	9

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Improve Internal Controls over Fixed Assets**

New College Institute (Institute) is in the process of implementing a new fixed asset system. However, the Institute does not currently have adequate controls over the management of its fixed assets. The Institute is not conducting a full fixed asset inventory at least every two years as required by Topic 30505 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual. In addition, the Institute is not performing reconciliations between the financial accounting system and agency based capital asset management system to ensure that capital assets recorded in both systems are in agreement. By not conducting full inventories and performing required reconciliations, the Institute runs the risk of improperly tracking capitalized assets, understating depreciation expense, and reporting incorrect account balances to the Department of Accounts. We recommend that employees collaborate on developing standardized policies and procedures over physical inventory and reconciliations. We also recommend that management implement corrective actions to ensure the management of fixed assets is in compliance with requirements outlined in the CAPP Manual.

### **Improve Information Security Management and Prioritization**

The Institute does not prioritize and manage information security for sensitive information technology resources. The Commonwealth's Information System Security Standard, SEC 501-08, requires that the Institute implement several security controls, both physical and logical, to safeguard mission critical systems. During the audit, we identified and communicated several areas of weaknesses to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. In general, these areas consisted of four control weaknesses in "Physical and Environmental Security" and three weaknesses in "Contingency Planning." Management has taken some steps to make on-the-spot corrections, but we recommend that the Institute prioritize information security management organization-wide and dedicate the necessary resources to comply with information security standards and best practices.

## AGENCY HIGHLIGHTS

New College Institute (Institute), located in Martinsville, is a state-funded educational entity that provides access for students to complete bachelor's degrees, masters degrees, teacher endorsement, teacher recertification and workforce development programs through partnerships with public and private institutions of higher education. The Institute has established academic partnerships with Averett University, James Madison University, Longwood University, Patrick Henry Community College, Piedmont Governor's School, Radford University, University of Virginia, Virginia Commonwealth University, and Virginia State University. The Institute addresses a variety of needs for traditional and non-traditional students and provides the opportunity for students to achieve educational development through well-known colleges and universities within the Commonwealth. The Institute has also partnered with private industry and community partners to provide training opportunities, which prepare students to enter today's workforce.

In the summer of 2014, the New College Foundation (Foundation) completed construction of a 52,000 square foot state of the art educational facility, which is leased to the Institute. The facility, located in Martinsville, offers technologically advanced classrooms, student collaboration spaces, a conference hall, administrative offices, and a manufacturing laboratory. This new facility promotes education and outreach by offering students an atmosphere conducive with learning, real-time work exposure and the opportunity for students to network with major employers.

The Foundation, established in 2006, was developed to support activities and endeavors of the Institute through private fundraising. The Foundation utilizes its concept of "margin of excellence" to assist the Institute with growth and prosperity and to address the needs of the Martinsville, Henry County region of Virginia. The Foundation provides educational support for students through endowed scholarship funds that are disbursed annually as designated by the donors. The Foundation established a capital fund-raising campaign goal of \$2 million to assist with construction of the new facility and has exceeded the goal by \$400,000.

## FINANCIAL HIGHLIGHTS

Tables 1 through 4 below illustrate the Institute's original budget, final budget and actual expenses for fiscal years 2012 through 2014. During fiscal year 2012, the Institute received approximately 57 percent of its operating budget from General Fund appropriations and the remaining 43 percent from special revenue, which is derived from the New College Foundation, Harvest Foundation, and Tobacco Indemnification and Community Revitalization Commission. Revenue streams for the Institute remained relatively flat with the Institute receiving a slight increase from General Fund appropriations to 58 percent of its operating budget for fiscal years 2013 and 2014. During fiscal year 2014, the Institute also received \$750,000 from the Virginia College Building Authority (VCBA) 21<sup>st</sup> Century Program to purchase equipment for the manufacturing lab. However, due to timing related with getting the manufacturing lab installed and operational, the equipment funds were not expended during the period under audit.

**Table 1 – Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2012**

Funding Source	Original Budget	Final Budget	Actual Expenses
General	\$1,464,107	\$1,474,427	\$1,474,348
Special Revenue	1,099,446	1,099,446	497,840
<b>Total</b>	<b>\$2,563,553</b>	<b>\$2,573,873</b>	<b>\$1,972,188</b>

**Table 2 – Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2013**

Funding Source	Original Budget	Final Budget	Actual Expenses
General	\$1,471,039	\$1,506,069	\$1,504,881
Special Revenue	1,099,446	1,099,446	127,820
<b>Total</b>	<b>\$2,570,485</b>	<b>\$2,605,515</b>	<b>\$1,632,701</b>

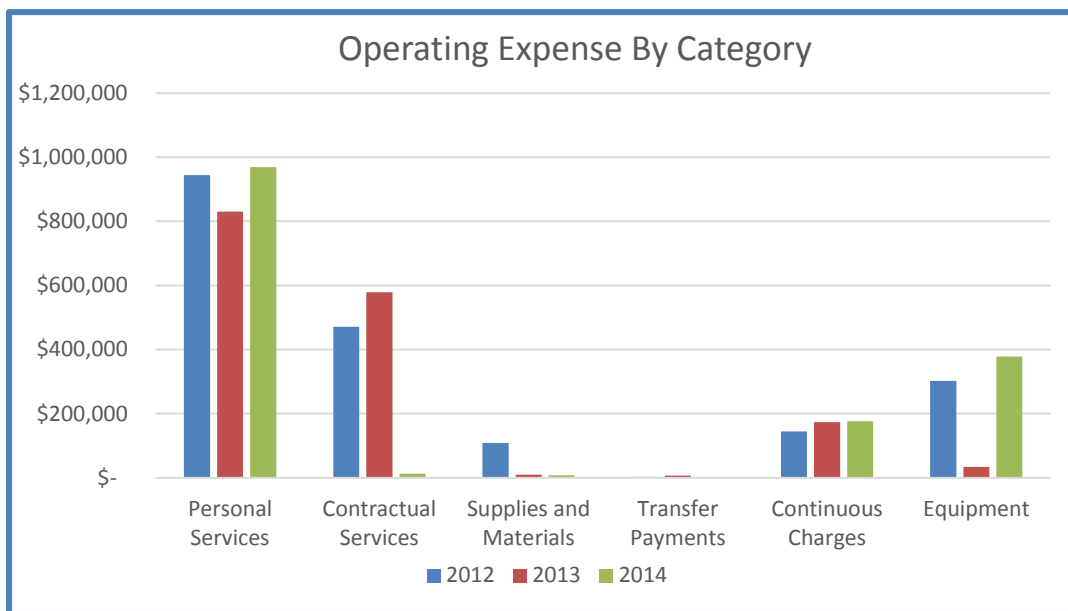
**Table 3 – Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2014**

Funding Source	Original Budget	Final Budget	Actual Expenses
General	\$1,471,055	\$1,516,459	\$1,516,427
Special Revenue	1,099,446	1,099,446	26,643
<b>Total</b>	<b>\$2,570,501</b>	<b>\$2,615,905</b>	<b>\$1,543,070</b>

**Table 4 – Additional Funds / VCBA – Fiscal Year 2014**

Funding Source	Original Budget	Final Budget	Actual Expenses
VCBA 21 <sup>st</sup> Century	\$ -	\$750,000	\$ -

During fiscal years 2012 through 2014, the Institute spent over \$5.1 million in total operating expenses. As illustrated below, due to the educational and outreach focus of the agency, personal services including fringe benefits represent \$2.7 million or 53 percent, and continues to be the Institute's largest operating expense and use of General funds. Contractual services, continuous charges, and supplies and materials account for \$1.6 million or 32 percent of total operating expenses. For expenses outside of personal services, the Institute remains reliant upon special revenue funds to meet operating needs. During fiscal year 2014, contractual services decreased significantly due to the elimination of the Old Dominion University Motorsports program and academic partner payments being made on behalf of the Institute by the Foundation. Equipment expenses represent \$0.7 million or 13 percent. During fiscal year 2014, equipment expenses increased primarily due to the completion of the new Baldwin academic facility.





Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

May 20, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of **New College Institute** (Institute) for the period July 1, 2011, through June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Institute's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

The Institute's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.



Federal grant revenues and expenses  
Contractual services expenses  
Payroll expenses  
Small purchase charge card  
Financial assistance and incentives payments  
Appropriations  
Capital assets  
Information System Security

We performed audit tests to determine whether the Institute's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Institute's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that the Institute properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Institute records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

### **Exit Conference and Report Distribution**

We discussed this report with management on July 2, 2015. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/alh



July 2, 2015

Ms. Martha Mavredes  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218-1295

Dear Ms. Mavredes:

New College Institute has reviewed the Financial Internal Control and Compliance Findings and Recommendations provided by the Auditor of Public Accounts for fiscal years 2012, 2013, and 2014. New College Institute is in agreement, in principle, with all of the findings submitted.

Attached for your consideration is a brief update as to where New College Institute is with respect to progress on the findings. The formal Corrective Action Work plan will be submitted within thirty days as required by CAPP Manual Section 10205. Please contact me should you have any questions or require additional information.

Sincerely,

William C. Wampler, Jr.  
Executive Director

***Realize your potential.***

**191 Fayette Street, Martinsville, VA 24112; Phone (276) 403-5602; Fax (276) 403-5604**

## AUDIT FINDINGS AND RECOMMENDATIONS

### Improve Internal Controls over Fixed Assets

New College Institute has initiated new inventory procedures that will improve the processes to meet the requirements outlined in the Commonwealth Accounting Policies and Procedure (CAAP) Manual.

### Improve Information Security Management and Prioritization

The Information Technology department has reviewed the findings and is taking a proactive approach to the findings. Some of the findings have already been addressed, some are requiring procurement, and others are anticipated to be complete by June 2016.

***Realize your potential.***

**191 Fayette Street, Martinsville, VA 24112; Phone (276) 403-5602; Fax (276) 403-5604**

## NEW COLLEGE INSTITUTE

### BOARD OF DIRECTORS

As of June 30, 2014

Grace Agnew  
Chair

Mark Heath  
Vice-Chair

Jay Edelen  
Senator Emmett Hanger, Jr.  
Dr. W. Weldon Hill  
George Lyle  
Delegate Danny Marshall

Dr. Edward Snyder  
Senator William M. Stanley, Jr.  
Marshall Stowe  
Delegate David J. Toscano  
Janice Wilkins

### EXECUTIVE DIRECTOR

William C. Wampler, Jr.